



Mid America Cooperative Council

2003-2013

"A Decade of Cooperative Education"

# MACC INDUSTRY SECTOR UPDATE

July, 2013

## July Features the Rural Electric Sector of our Membership

### The History of Electric Co-ops

As late as the mid-1930s, **nine out of 10 rural homes were without electric service**. The farmer milked his cows by hand in the dim light of a kerosene lantern. His wife was a slave to the wood range and washboard. The unavailability of electricity in rural areas kept their economies entirely and exclusively dependent on agriculture. Factories and businesses, of course, preferred to locate in cities where electric power was easily acquired. For many years, power companies ignored the rural areas of the nation.

### Rural Electrification Administration

The idea of providing federal assistance to accomplish rural electrification gained ground rapidly when President Roosevelt took office in 1933. On May 11, 1935, Roosevelt signed Executive Order No. 7037 establishing the **Rural Electrification Administration (REA)**. It was not until a year later that the Rural Electrification Act was passed, and the lending program that became the REA got underway.

Within four years following the close of the war, the number of rural electric systems in operation doubled, the number of consumers connected more than tripled, and the miles of energized line grew more than five-fold. By 1953, more than 90 percent of U.S. farms had electricity. Today, about 99 percent of the nation's farms have electric service. Most rural electrification is the product of locally owned rural electric cooperatives that got their start by borrowing funds from REA to build lines and provide service on a not-for-profit basis. **Today, REA is the Rural Utilities Service, or RUS and is part of the U.S. Department of Agriculture.** (excerpts from *National Rural Electric Cooperative Association - History of Electric Co-ops*)

**Today, the vast majority of electric generation in the Midwest relies on coal fired steam generation.** However, electricity generation from our cooperative generation plants is becoming less reliant on coal as we 1) Add renewable generation capacity where feasible; 2) Install additional environmental controls to our current plants; 3) Work with member consumers to become more efficient with their electric consumption through load controls and management, along with rebates for installing more efficient products; and 4) Bring more efficient natural gas generation plants online.

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### Remarks from David Sheets - RushShelby Energy

Around the nation, electric cooperatives are celebrating 75 years of service to their member/owners. In 1935, the drive to bring electricity to rural homes was embraced by citizens of all ages and supported by most of their urban neighbors. During the ensuing decades, electricity in rural homes and businesses has become a concept to take for granted.

Flip a switch and the power is there. Pay your monthly bill, and it is often times not even one of the top ten check amounts written in a month. For the average consumer this is good news. Their electricity bill and service are not issues that come to the front of their minds. However, for the electric cooperatives our decades of success may have helped to create an environment of apathy that hinders our current efforts to maintain our progress and status.

Government regulatory issues are an immediate threat to electric cooperatives and, certainly, the entire electric industry. Air quality and renewable energy issues are in the news every day and can be major campaign issues for state and national politicians. The rural electric industry has long been recognized as a leader in these issues, but that isn't enough today. Proposed regulations and laws could have an immediate impact of doubling electric rates for consumers!

**The nearly 900 electric cooperatives in the United States are working to re-engage their members in grassroots efforts** to work with the elected officials to make sure that any new laws, policies or regulations are fair and affordable for rural consumers. With founding fathers and mothers being farmers, a respect for the land and the environment has always been key to rural electric programs. Our employees and members live in the rural areas of our nation because of the quality of life the land provides. No one believes that environmental issues should not be a consideration. However, rural consumers should only be asked to do their share, not accept too much of the regulatory burden on themselves.

Rural electric cooperative management and directors know that coal-fired generation is currently the most economical option to serve our members. Our plants maintain the highest standards of environmental control, often exceeding government requirements. To simply accept regulation that will reduce access to this option will be an economic hardship for every consumer. Wind, solar and other renewable options have been embraced in rural communities long before it was trendy in the major cities. However, protection of our land and water resources must be a balance for the construction of renewable projects.

While these issues are being discussed and negotiated in the legislative halls of our nation, **rural electric cooperatives are working with each and every member to make them a wiser energy consumer.**

## Rural Electric Co-ops (cont'd.)

Weatherization and energy efficiency programs can be found in nearly every corner of the industry. The goal is not only the reduction of the monthly bill for the member but helps to reduce the need for new generation plants to be built or the carbon footprint from existing generation.

The biggest challenge facing the rural electric industry in the next decade; engagement. Our members must become more involved in using energy wisely, monitoring legislation and regulation, and sharing their views with elected officials. It will not be our electric cooperative directors or managers that make the difference, it will be the members as has always been the case. Their renewed interest and involvement in this cooperative they own will be the only way to protect it and allow it to continue to grow in service to them. "I Own My Electric Company" must once again become the slogan carried with pride by millions of member/owners. They created one of the greatest success stories in American history by sharing that feeling and protecting what was theirs. That concept is needed now more than ever.

### Co-op Satisfaction Surpasses IOUs

In the third quarter of 2012, **Touchstone Energy® co-ops tied their all-time high showing in the American Customer Satisfaction Index, scoring an 83. That compares to an average of 76 for investor-owned utilities.**

"From a branding perspective, that's what we mean when we say 'the cooperative difference.' It's not a slogan; it's real," said *Tim Sullivan, Touchstone Energy C&I development director.*

ACSI annually surveys some 70,000 consumers, gauging their attitudes toward more than 200 companies.

Digging down into the particular questions ACSI asks, members gave Touchstone Energy co-ops high marks for value. The "value" score shot up from 77 to 81 in the past year.

**"Consumers perceive they're getting greater value and a better utility provider with cooperatives,"** Sullivan said.

*(excerpts from [www.touchstoneenergy.com](http://www.touchstoneenergy.com))*

### **Rural Electric Co-op Links:**

[National Rural Electric Cooperative Association](#)

[Touchstone Energy](#)

[REC InfoCenter](#)

### **MAC-Ed Program Registration**

Please visit <http://macc.coop/>

**Members** please register on the website for member discount prices on educational programs, etc.

**Nonmembers** do not register on the website, but may register for educational programs

**Call (317) 726-6910 or email [knowledge@macc.coop](mailto:knowledge@macc.coop) for more information!**

## Rod's Comments

**Rural Electric Cooperatives** have been the classic example of why cooperatives are so different than their investor owned competitors. For nearly 50 years people who lived in urban America had electricity, unlike their rural cousins. In the 1880s, electricity was common in Chicago, Cincinnati, Cleveland, Detroit, and St. Louis. By 1900, most major cities had electricity and their electric street lights clearly separated the haves from the have nots. It was America's own caste system that separated the "cultural elite" from the "ne'er-do-well".

My mother often told the story of walking the quarter mile home after the school bus dropped her and her sister off, one blustery evening. There was light from inside her house and she thought it as on fire with the light illuminating from within, only to find out that electricity had finally come to her home on December 5, 1939, some 40 years after the parents of her classmates had power in their homes in the neighboring town. There was a clear cultural difference between urban and rural America in the first half of the 20th century. U.S. congressmen and senators testified that rural America had no need for electricity, and **Investor Owned Electricity Companies (IOEC)** could not be required to provide service outside of the larger towns they already served.

An interesting fact is that nearly all of the employees that built the publicly funded Tennessee Valley Authority's 29 hydroelectric dams, along the Tennessee River, lived in a home without electricity. The electrical distribution systems went east to the urban markets that could pay for such luxuries. Over a generation later in the early 1950s, with the help of the **Rural Electrification Act** that provided federal loans to establish cooperatives, they installed electrical distribution systems to serve rural areas where they were able to have electricity. It was the Rural Electrification Act of 1935 that gave rural America the opportunity to form cooperatives, borrow the money and build their own electric generation, transmission and distribution systems to bring electricity power to rural America. The result is, that there are 905 Rural Electric Cooperatives today that continue to provide electrical power to 18.5 million homes and businesses in 2,500 of 3,141 counties in the United States. However, collectively they only use 5% of the total electricity produced in the United States. Unlike many of today's federal loans, every cooperative repaid their federal loan with interest.

The Rural Electric Cooperative focus was serving their member's needs, profitably. This is different than the Investor Owned Electric Companies (IOEC), that still serve urban America. The IOEC's focus is on serving their shareholder's profit need. The difference is, that all of the rural electric cooperative shareholders are member/owners that live on the electric distribution lines served by their electric cooperatives, while most of the shareholder/owners of the IOECs live far away from the customers they serve. It is no wonder that the owners of the IOECs care only about their dividend check and the profits generated by their electric company.

Today, the electric industry is facing strong regulatory challenges from proposed new standards by the Federal Energy Regulatory Commission. Rural Electric Cooperatives, with a goal of serving member needs, have planned for these costly cleaner energy policies by budgeting for improvements in their generation plants funded by each member/owner. The Investor Owned Electric Companies are taking a different tact of fines, appeals and legal challenges that may be less expensive in the short run. In the long run all will abide by the same standards. Thus, the electric industry continues to be a classic example of the **difference between the Investor Owned Electric Companies who serve their investors, and the Rural Electric Cooperatives who serve their customer/owners.**